



Pedro Sánchez Castejón

President of the Government of Spain

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Nadia Calviño Santamaría

First Vice-President of the Government of Spain
and Minister for the Economy and Digital
Transformation

Yolanda Díaz Pérez

Second Vice-President of the Government of Spain
and Minister for Work and Social Economy

Teresa Ribera

Third Vice-President of the Government of Spain
and Minister for Ecological Transition and
Demographic Challenge

Ione Belarra

Minister for Social Rights and 2030 Agenda

Dear Mr. President,

This year the Spanish Government has the opportunity **to promote a new fiscal policy framework within the European Union. This framework will strengthen countries' fiscal capacity and sufficiency to promote a just ecological transition and guarantee basic social rights for all people.** Moreover, this fiscal framework is central to advancing a fairer and more democratic economy, better aligned with climate and biodiversity goals. **The answer isn't a return to austerity nor a return to the start of the economic bubble spur,** resulting from unregulated markets that don't respond to general interest and which cause the environmental and climate crises to worsen.

The **Stability and Growth Pact**, one of the mainstays of the European fiscal framework, has been temporarily suspended since 2020¹. The Member States together with the European Commission agreed to activate the general escape clause to allow for the appropriate public health and socio-economic response to the pandemic and the consequences of the war in Ukraine. **Suspending the fiscal rules has enabled a response far removed from the austerity measures which prevailed after the Subprime (2008) and the Eurozone debt crises (2012).**

¹ The 1992 Maastricht Treaty demands from the present and future Member States to stick to arbitrary debt and public deficit, 60% and 3% of the Member State's GDP. The Stability and Growth Pact from 1997 further developed these rules and their enforcement mechanisms.



On November 9th, 2022, the European Commission presented its *Communication on orientations for a reform of the EU economic governance framework*². This document contains the general guidelines for an adaptation of the EU fiscal rules to be enforced in all EU countries from 2024 onwards.

The signing organizations strongly urge abandoning the **current fiscal framework due to its negative ramifications in confronting the ecological and inequality crises**. Responding to the present challenges requires tools grounded in a holistic idea of stability, balance and risk that includes social, climatic, environmental, disease, and care work indicators. Accordingly, **the paradigms around unlimited economic growth, indiscriminate and inconsistent public expenditure and constraining macroeconomic goals must be shifted** and public financial management must be improved beyond arbitrary measures such as keeping governments' public debt below 60% and public deficit below 3% of their GDP.

As an organized civil society, we warn of the significance of this process and its potential consequences for citizens and ask for a broad social discussion where we can participate.

We would like to put forth our assessment of the European Commission's Communication and a series of suggestions for improvement in the interest of the government's work, in particular while holding the **Presidency of the Council of the European Union**.

Positive Aspects of the Commission's Proposal

- ✓ It grants **more flexibility and differentiates more between countries** compared to previous rules. Spain could be one of the countries to request longer periods of time (up to seven years) to reach fiscal balance.
- ✓ It acknowledges **the need for a greater public fiscal capacity and sufficiency** to meet the current challenges of a just and ecological transition.
- ✓ It enables governments to **develop and negotiate its own plans**, considering the needs and policies pursued by each Member state.

² [EUROPEAN COMMISSION Brussels, 9.11.2022 COM\(2022\) 583 final COMMUNICATION.](#)



Key Elements of Improvement for a Fairer, Greener, and More United Europe

Despite these advances, the signing organizations consider that the **initial approach must be considerably improved**. For this reason, we would like to bring forth a series of proposals:

- 1. Full democratic legitimacy should be given to the processing, approval and review of adjustment plans and reforms.** To this end, a parliamentary debate should be incorporated into the negotiation process and be flexible to government changes and new political projects derived from the citizens' vote, and thus, avoid democratic undermining.
- 2. Ensure consistency with the commitments made in the Paris Agreement in relation to limiting the temperature increase to 1.5 °C,** including the **biodiversity targets committed to at the Montreal summit** and the rights set out in the **European Social Charter**. In this regard, it is necessary to avoid indiscriminate GDP growth contrary to these objectives and to incorporate the *Do Not Significant Harm*³ principle and an ex-ante impact analysis (economic, social, and environmental) that allows us to assess the various scenarios into all economic plans and measures.
- 3. Integrate a more all-encompassing notion of stability of public accounts and fiscal balance by incorporating environmental and climate risk** and by moving beyond GDP as a *proxy* for prosperity and well-being. "Healthy" and "balanced" public accounts exist when they guarantee quality employment and inclusion, the reduction of poverty and inequality and lastly, a quality environment and the reduction of emissions⁴. As such, environmental, climate, social, feminist and "beyond GDP" indicators should be incorporated into the compliance monitoring of the plans.
- 4. Ensure sufficient fiscal space to address a just and democratic ecological transition and guarantee human welfare** with the most fundamental rights of access to quality health, education and social protection. Public investments that reduce future climate risks and help mitigate their effects should be incentivized.

3 The DNSH (Do No Significant Harm) Principle is a condition defined by the Commission that requires a self-assessment to ensure that the investment or reform does not adversely affect one or more of the 6 environmental objectives defined in Regulation 852/2020: Climate Change Mitigation.

4 Climate change and biodiversity disruption pose a systemic risk with direct implications for a country's public accounts and debt, as pointed out in the "[From Maastricht to Paris](#) | Finance Watch"



- 5. Include “green” and “purple” budget targets** in national fiscal-structural plan reforms and in specific recommendations. In turn, measures should be put in place that avoid “greenwashing” or “purple washing” and which transparently assess the efficiency of spending programs, taxation, and their degree of alignment with transition and well-being objectives. An example of this would be the **elimination of subsidies to fossil fuels** and to industries and sectors not aligned with environmental and social objectives.

- 6. Pushing for greater fiscal progressivity and closing fiscal loopholes –within and between countries– with the aim of improving social services and citizen well-being.** Debt, and its implications for future generations, should not be the alternative solution to fiscal insufficiency. This tax reform should be centered around measures that reinforce tax sufficiency and progressivity, with a focus on: **reforming Corporate Income Tax**, addressing the multiple deductions and allowances from which large companies benefit; **strengthening the Windfall Profits Tax** by making it a permanent measure and extending it to all sectors, **taxing capital income** and breaking with its favorable treatment with respect to labor income and putting an end to the unfair duality of Personal Income Tax; reforming the **Wealth Tax** so that it contributes to achieving its distributive purpose; extend **green taxation** to include compensation measures for the lowest incomes; and, finally, prioritize the **fight against tax avoidance and evasion** by the richest companies and individuals and update the criteria for determining which countries should form the list of EU and Spanish State tax havens.

- 7. Include specific measures of a fiscal nature** in the plans for each country that reinforce both tax sufficiency, progressivity and green taxation. To this effect, a type of tax progressivity indicator should be included, in such a way as to ensure that the increase in tax revenues does not fall unequally on citizens. On the other hand, consistency must be demanded in the plans and to assure that debt creation isn’t accompanied by tax evasion and avoidance.

- 8. Establish mechanisms for auditing, control, and public scrutiny of the quality and consistency of spending, the legitimacy for debt and establish anti-corruption safeguards.** The fiscal space generated should not be squandered in favor of increased military spending and expansion of fossil and nuclear infrastructure. Likewise, respect for anti- corruption requirements and recommendations, as well as the Court of Auditors and the European Court of Auditors’ instructions and decisions, should be a prerequisite for the approval of any Member State’s plans.



The signing civil society organizations call on the government to lead a reform of the fiscal framework that strengthens democracy, well-being, and a healthy and balanced environment. We must turn the page of austerity for good and make way for the construction of a fairer, more resilient economy, at the service of people and within planetary limits. Europe has both an ecological and inequality debt that must be urgently settled. Our future depends on it.

Yours Sincerely,



Ecologistas en Acción / Observatori del Deute en la Globalització / Oxfam Intermón / Greenpeace / Futuro en Común / Plataforma por la Justicia Fiscal / UGT / CCOO / USO / Confederación General del Trabajo (CGT) / Federación de Consumidores y Usuarios - CECU / La Coordinadora de Organizaciones para el Desarrollo-España / Amigos de la Tierra / WWF España / SEO irdLife / ECODES / Asociación Ciencias Ambientales / Economistas sin Fronteras / Alianza por la Rehabilitación de Viviendas Sin Dejar a Nadie Atrás / Fòrum de la Nova Ruralitat / REVO Prosperidad Sostenible / Instituto de Cooperación Internacional y Desarrollo Municipal - INCIDEM / Alianza por la Solidaridad -ActionAid / Fundación World Vision Internacional / Red de ONGD de Madrid / Redes Cristianas / FACUA Andalucía / Movimiento por la Paz -MPDL- / Fundación Vida Sostenible / WILPF España. Liga Internacional de Mujeres por la Paz y la Libertad /